

# MOUNTAIN VIEW REVITALIZATION AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

Members of the  
Mountain View Revitalization Authority  
City of Mountain View, California

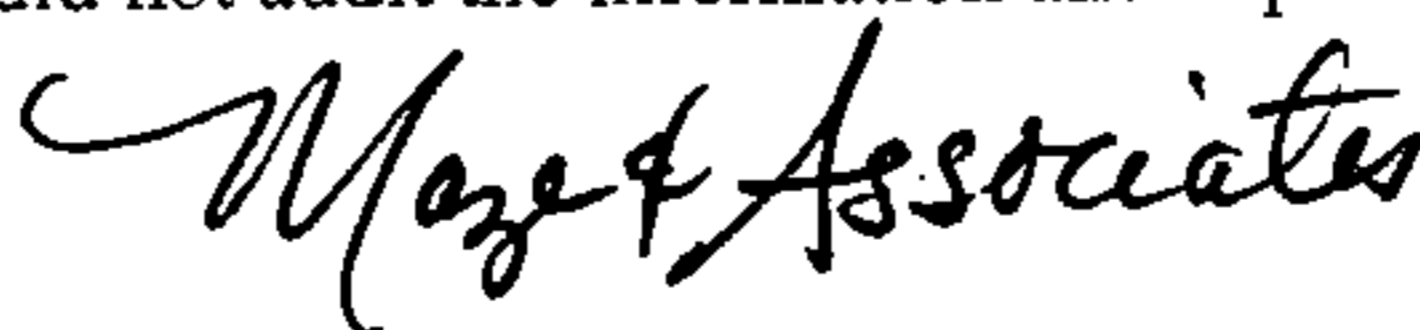
We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain View Revitalization Authority (Authority), a component unit of the City of Mountain View, California as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2003, and the respective changes in the financial position and the respective budgetary comparisons for the Revitalization Authority and Housing Set-Aside Funds for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic component unit financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 4, 2003



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Mountain View Revitalization Authority's (Authority) basic component unit financial statements presents a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our transmittal letter of the City of Mountain View (City).

### **FINANCIAL HIGHLIGHTS**

The Authority's principal revenue source is incremental property taxes, which increased in Fiscal Year 2003. Fiscal Year 2003 financial highlights include the following:

- The assets of the Authority exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by \$9.4 million (net assets). Of this amount, the Authority's unrestricted net assets are a negative \$28,000 which will be eliminated with future tax increment revenue.
- The Authority's total net assets increased by \$7.0 million, including the retroactive addition of infrastructure assets, during the fiscal year.
- Authority-wide revenues included general revenues and transfers of a negative \$254,000 as a result of transferring \$3.0 million to the City for the construction of a new parking structure.
- Authority-wide expenses included \$836,000 for community development and \$414,000 for interest on long-term debt.
- Governmental fund balances decreased to \$4.3 million in Fiscal Year 2003, down from \$5.8 million in Fiscal Year 2002.
- Governmental fund revenues are \$2.8 million in Fiscal Year 2003, approximately the same as prior year.
- Governmental Fund expenditures are \$1.2 million in Fiscal Year 2003, up \$188,000 from the prior year's \$1.0 million.

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Authority's basic component unit financial statements. The Authority's basic component unit financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

## Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

## Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Authority's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Revitalization Authority Fund, the Housing Set-Aside Fund and the Police/Fire Building 1995 COP Fund, all of which are reported as major funds.

The Authority adopts an annual appropriated budget for its Revitalization Authority and Housing Set-Aside Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with budgets.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This is the second year the Authority has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the Authority's financial statements for Fiscal Year 2002 did not provide comparative information in its MD&A. This year, two years of financial information is available in the GASB Statement No. 34 format and a comparative analysis of government-wide data is included in this report.

### Analysis of Net Assets

A summary of net assets follows:

#### **Statement of Net Assets** (Dollars in thousands)

	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Current and other assets	\$ 8,334	7,925
Capital assets	<u>12,307</u>	<u>4,175</u>
Total assets	<u>20,641</u>	<u>12,100</u>
<b>Liabilities:</b>		
Current and other liabilities	4,106	2,269
Noncurrent liabilities	<u>7,145</u>	<u>7,485</u>
Total liabilities	<u>11,251</u>	<u>9,754</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	5,162	(3,310)
Restricted	4,256	3,761
Unrestricted	<u>(28)</u>	<u>1,895</u>
Total net assets	<u>\$ 9,390</u>	<u>2,346</u>

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Authority, assets exceeded liabilities by \$9.4 million at the end of the fiscal year. The following is a summary of the Authority's net assets for governmental activities:

- The largest portion of the Authority's net assets of \$5.2 million is invested in capital assets, net of related debt.
- The Authority has net assets of \$4.3 million restricted for the purpose of providing low- and moderate-income housing in the City and for debt service.
- The Authority's unrestricted net assets is a negative \$28,000 which will be eliminated by future tax increment revenues of the Authority.

The Authority's net assets increased \$7.0 million for the fiscal year. This is primarily from the retroactive addition of infrastructure assets, as allowed under GASB Statement No. 34.

### Statement of Activities

A summary of the changes in net assets follows:

	<b>Statement of Activities</b> (Dollars in thousands)	
	<u>2003</u>	<u>2002</u>
<b>Revenues</b>		
General revenues:		
Taxes	\$2,552	2,453
Interest earnings	<u>205</u>	<u>367</u>
Total revenues	<u>2,757</u>	<u>2,820</u>
<b>Expenses</b>		
Community development	836	368
Interest on long-term debt	<u>414</u>	<u>539</u>
Total expenses	<u>1,250</u>	<u>907</u>
Increase in net assets before transfers	1,507	1,913
Transfers (net)	<u>(3,011)</u>	<u>159</u>
Change in net assets	(1,504)	2,072
Beginning net assets	2,346	274
Retroactive adjustment	<u>8,548</u>	<u>-0-</u>
Ending net assets	<u>\$9,390</u>	<u>2,346</u>

The major component of the Authority's Fiscal Year 2003 revenue is \$2.6 million from incremental property taxes. This amount compares with \$2.5 million in Fiscal Year 2002 and increased as the result of successful redevelopment efforts by the Authority. Investment earnings accounted for \$205,000 of Authority revenues, down from Fiscal Year 2002's \$367,000 as interest yields continued to decline during the year. Net transfers to the City of \$3.0 million were primarily to fund capital projects of the Authority.

Total expenses were \$1.3 million, of which \$836,000 was for community development and \$414,000 was for interest on long-term debt.

## **FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the Authority's funds reported combined fund balances of \$4.3 million, a decrease of \$1.4 million from Fiscal Year 2002's fund balances of \$5.8 million. A negative \$178,000 of this total amount represents unreserved fund balance, which will be eliminated by future tax increment to the Authority. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for restricted purposes.

Revenues for the fiscal year ending June 30, 2003 totaled \$2.8 million, a decrease of \$63,000 or 2.2 percent over the prior fiscal year. Expenditures totaled \$1.2 million, an increase of \$188,000 over the prior fiscal year.

The Revitalization Authority Fund is the general fund for the Authority and accounts for the activities of the Authority, which was created to prepare and carry out redevelopment plans for a designated area of the City. At the end of the fiscal year, unreserved fund balance is a deficit \$2.8 million while total fund balance is a deficit \$28,000. The deficit fund balance is a result of the transfer to the City of \$3.0 million to fund capital projects of the Authority. This deficit fund balance will be eliminated by future property tax increment revenues.

The fund balance of the Authority's fund decreased by \$2.0 million during the current fiscal year. Key factors in this decline are as follows:

- Total revenues are \$2.6 million in Fiscal Year 2003, a decrease of \$51,000. Property tax increment revenues are \$2.6 million in Fiscal Year 2003, an increase of \$99,000 from Fiscal Year 2002. Investment earnings for Fiscal Year 2003 at \$85,000 is \$150,000 lower than the prior year as interest rates continued to decline.
- Expenditures are \$420,000 in Fiscal Year 2003, an increase of \$188,000 from the prior year, \$74,000 of this is related to the State-mandated payment to the Educational Revenue Augmentation Fund (ERAF).
- Included in other financing sources in Fiscal Year 2003 are net transfers out of \$3.0 million, representing a transfer to the City's capital projects by the Revitalization Fund for the construction of a new parking facility downtown.

The Housing Set-Aside Fund accounts for the portion of property tax increment required under California law to be set aside to fund low- and moderate-income housing expenditures. The Authority's loans to nonprofit corporations developing low- and moderate-income housing are accounted for in this fund. These loans are described in detail in Note 4 to the financial statements.

The fund balance of the Housing Set-Aside Fund increased by \$613,000 during the current fiscal year as a result of investment earnings and the transfer of 20 percent of property tax increment from the Revitalization Authority Fund. There were no expenditures made during the year.

The Police/Fire Building 1995 COP Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the Authority's pledge of tax increment for the repayment of the 1995 Refunding Certificates of Participation (COPs), which are more fully described in Note 7 to the financial statements.

The fund balance of this fund decreased \$16,000 as a result of utilizing funds for the payment of debt service. Debt service expenditures included \$340,000 in principal retirement and \$418,000 in interest payments and fiscal charges in Fiscal Year 2003. Subsequent to June 30, 2003, the 2003 COPs were issued, and a portion of the proceeds were used to defease the 1995 COPs.

## **CAPITAL ASSETS**

A summary of capital assets follows:

	<b>Capital Assets</b> (Dollars in thousands)	
	<u>2003</u>	<u>2002*</u>
Buildings	\$ 5,394	5,394
Improvements other than buildings	10	10
Parking facility	4,140	4,140
Streetlights	781	781
Sidewalks, curbs and gutters	3,839	3,839
Streets and roads	3,009	3,009
Less accumulated depreciation	<u>(4,866)</u>	<u>(4,450)</u>
<b>Total</b>	<b><u>\$12,307</u></b>	<b><u>12,723</u></b>

\*Restated to include retroactive additions.

At the end of Fiscal Year 2003, capital assets recorded on the Authority's financial statements amounted to \$12.3 million (net of accumulated depreciation). This includes retroactive additions

of net capital assets of \$8.5 million for the parking facility and other infrastructure assets as required by GASB Statement No. 34. There were no additions during Fiscal Year 2003, and depreciation of \$416,000 is provided for in Fiscal Year 2003. Further details on capital assets and depreciation charges may be found in Note 5.

### **DEBT ADMINISTRATION**

The Authority's pledge of tax increment revenue related to the 1995 COPs debt issue is discussed in detail in Note 7 to the financial statements. At June 30, 2003, the Authority's indebtedness under this issue is \$7.1 million. Subsequent to June 30, 2003, the 2003 COPs were issued with a portion of the proceeds used to defease the 1995 COPs.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

- Overall property taxes for the Authority are expected to increase for the upcoming fiscal year as new development is completed and comes onto the tax roll.
- State actions require a shift of tax increment to ERAF estimated at \$146,000 from the Authority for Fiscal Year 2004.
- The construction of a downtown parking structure, to be partially financed from the 2003 COPs issued subsequent to June 30, 2003. The parking structure will accommodate 468 vehicles and feature approximately 20,000 square feet of retail space on the ground floor and is expected to be completed in Fiscal Year 2005.

All of these factors were considered in preparing the Authority's budget for Fiscal Year 2004.

### **REQUEST FOR INFORMATION**

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 500 Castro Street, Mountain View, California, 94039-7540.

PJK/6/FIN  
546-09-09-03R-2^

## MOUNTAIN VIEW REVITALIZATION AUTHORITY

### Statement of Net Assets

June 30, 2003 (Dollars in Thousands)

#### Assets:

Cash and investments (Note 3)	\$ 3,769
Restricted cash and investments (Note 3)	768
Receivables:	
Accounts	75
Interest	82
Loans (Note 4)	1,003
Land held for redevelopment (Note 1E)	2,637
Capital assets (net where applicable of accumulated depreciation) (Note 5)	<u>12,307</u>
Total assets	<u>20,641</u>

#### Liabilities:

Accounts payable and accrued costs	8
Interest payable	102
Advances from the City of Mountain View (Note 6B)	3,996
Refunding Certificates of participation (Note 7)	
Due in one year	355
Due in more than one year	<u>6,790</u>
Total liabilities	<u>11,251</u>

#### Net assets (Note 9):

Invested in capital assets, net of related debt	5,162
Restricted for:	
Debt service	666
Low and moderate income housing	3,590
Unrestricted	<u>(28)</u>
Total net assets	<u>\$ 9,390</u>

See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**

**Statement of Activities**

**For the Year Ended June 30, 2003 (Dollars in Thousands)**

<b>Functions/Programs</b>	
Community development	\$ 836
Interest on long term debt	<u>414</u>
Total program expenses	<u>1,250</u>
<b>General revenues:</b>	
Taxes	2,552
Interest earnings	205
Transfers from the City of Mountain View (Note 6A)	148
Transfers to the City of Mountain View (Note 6A)	<u>(3,159)</u>
Total general revenues and transfers	<u>(254)</u>
Change in net assets	(1,504)
Beginning net assets	2,346
Add: retroactive additions of infrastructure assets (Note 5)	<u>8,548</u>
Ending net assets	<u>\$ 9,390</u>

See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY****Governmental Funds****Balance Sheet****June 30, 2003 (Dollars in Thousands)**

	<u>Revitalization Authority</u>	<u>Housing Set-Aside</u>	<u>Police/Fire Building 1995 C.O.P.</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and investments (Note 3)	\$ 1,281	2,488	0	3,769
Restricted cash and investments (Note 3)	0	0	768	768
Receivables:				
Accounts	0	75	0	75
Interest	58	24	0	82
Loans (Note 4)	0	1,003	0	1,003
Land held for redevelopment (Note 1E)	<u>2,637</u>	<u>0</u>	<u>0</u>	<u>2,637</u>
Total assets	<u>\$ 3,976</u>	<u>3,590</u>	<u>768</u>	<u>8,334</u>
<b>Liabilities and fund balances:</b>				
Accounts payable and accrued costs	\$ 8	0	0	8
Advances from City of Mountain View (Note 6B)	<u>3,996</u>	<u>0</u>	<u>0</u>	<u>3,996</u>
Total liabilities	<u>4,004</u>	<u>0</u>	<u>0</u>	<u>4,004</u>
<b>Fund balances (deficits) (Note 9):</b>				
Reserved for:				
Restricted cash and investments	0	0	768	768
Loans receivable	0	1,003	0	1,003
Encumbrances	100	0	0	100
Land held for redevelopment	<u>2,637</u>	<u>0</u>	<u>0</u>	<u>2,637</u>
Unreserved:				
Undesignated	<u>(2,765)</u>	<u>2,587</u>	<u>0</u>	<u>(178)</u>
Total fund balances (deficits)	<u>(28)</u>	<u>3,590</u>	<u>768</u>	<u>4,330</u>
Total liabilities and fund balances	<u>\$ 3,976</u>	<u>3,590</u>	<u>768</u>	

Amounts reported for Governmental Activities in the Statement of Net Assets  
are different from those reported in the Governmental Funds above because of the following:

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets or financial resources  
and therefore are not reported in the Governmental Funds.

12,307

**LONG TERM ASSETS AND LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore  
are not reported in the Funds:

Long-term debt

(7,145)

Interest payable

(102)**NET ASSETS OF GOVERNMENTAL ACTIVITIES**\$ 9,390

See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY****Governmental Funds****Statement of Revenues, Expenditures and****Changes in Fund Balances (Deficits)****For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Revitalization Authority</u>	<u>Housing Set-Aside</u>	<u>Police/Fire Building 1995 C.O.P.</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes	\$ 2,552	0	0	2,552
Use of money and property	85	102	18	205
Total revenues	<u>2,637</u>	<u>102</u>	<u>18</u>	<u>2,757</u>
<b>Expenditures:</b>				
Current:				
Community development	346	0	0	346
Educational Revenue Augmentation Fund (Note 11)	74	0	0	74
Debt service:				
Principal repayment	0	0	340	340
Interest and fiscal charges	0	0	418	418
Total expenditures	<u>420</u>	<u>0</u>	<u>758</u>	<u>1,178</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,217</u>	<u>102</u>	<u>(740)</u>	<u>1,579</u>
<b>Other financing sources (uses):</b>				
Transfers in (Note 6A)	0	511	724	1,235
Transfers (out) (Note 6A)	(1,235)	0	0	(1,235)
Transfers from the City of Mountain View (Note 6A)	148	0	0	148
Transfers to the City of Mountain View (Note 6A)	(3,159)	0	0	(3,159)
Total other financing sources (uses)	<u>(4,246)</u>	<u>511</u>	<u>724</u>	<u>(3,011)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(2,029)</u>	<u>613</u>	<u>(16)</u>	<u>(1,432)</u>
Beginning fund balances	<u>2,001</u>	<u>2,977</u>	<u>784</u>	<u>5,762</u>
Ending fund balances (deficits)	<u>\$ (28)</u>	<u>3,590</u>	<u>768</u>	<u>4,330</u>

See accompanying notes to financial statements.

## MOUNTAIN VIEW REVITALIZATION AUTHORITY

**Reconciliation of the  
Net Change in Fund Balances  
Total Governmental Funds with the  
Statement of Activities  
For the Year Ended June 30, 2003 (Dollars in Thousands)**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES (DEFICITS)- TOTAL GOVERNMENTAL FUNDS	\$ (1,432)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

### CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense is deducted from the fund balance	(416)
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### LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	340
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### ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	<u>4</u>
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CHANGE IN NET ASSETS (DEFICITS) OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,504)</u>
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See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY****Revitalization Authority  
Statement of Revenues, Expenditures and  
Changes in Fund Balances (Deficits)  
Budget and Actual  
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<b>Budgeted Amounts</b>		<b>Actual Amounts Budgetary Basis</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Taxes	\$ 2,666	2,666	2,552	(114)
Use of money and property	183	183	85	(98)
	<u>2,849</u>	<u>2,849</u>	<u>2,637</u>	<u>(212)</u>
Amounts available for appropriation				
<b>Expenditures:</b>				
Current:				
Community development	464	574	346	228
Educational Revenue Augmentation Fund	0	0	74	(74)
	<u>464</u>	<u>574</u>	<u>420</u>	<u>154</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>2,385</u>	<u>2,275</u>	<u>2,217</u>	<u>(58)</u>
<b>Other financing sources (uses):</b>				
Transfers (out)	(1,292)	(1,292)	(1,235)	57
Transfers from the City of Mountain View	0	0	148	148
Transfers to the City of Mountain View	(3,220)	(3,220)	(3,159)	61
	<u>(4,512)</u>	<u>(4,512)</u>	<u>(4,246)</u>	<u>266</u>
Total other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(2,127)</u>	<u>(2,237)</u>	<u>(2,029)</u>	<u>208</u>
<b>Beginning fund balances</b>	<u>2,001</u>	<u>2,001</u>	<u>2,001</u>	<u>0</u>
<b>Ending fund balances (deficits)</b>	<u>\$ (126)</u>	<u>(236)</u>	<u>(28)</u>	<u>208</u>

See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY****Housing Set-Aside  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Budget and Actual  
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Use of money and property	<u>\$ 63</u>	<u>63</u>	<u>102</u>	<u>39</u>
Amounts available for appropriation	<u>63</u>	<u>63</u>	<u>102</u>	<u>39</u>
<b>Other financing sources (uses):</b>				
Transfers in	<u>533</u>	<u>533</u>	<u>511</u>	<u>(22)</u>
Total other financing sources	<u>533</u>	<u>533</u>	<u>511</u>	<u>(22)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	596	596	613	17
Beginning fund balances	<u>2,977</u>	<u>2,977</u>	<u>2,977</u>	<u>0</u>
Ending fund balances	<u><u>\$ 3,573</u></u>	<u><u>3,573</u></u>	<u><u>3,590</u></u>	<u><u>17</u></u>

See accompanying notes to financial statements.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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The Mountain View Revitalization Authority (Authority) was established in 1969 under the Provisions of the Redevelopment Law (California Health and Safety Code) to provide an improved physical, social and economic environment in the Plan Area.

The Authority is an integral part of the City of Mountain View (City). It primarily services the City and the City's City Council serves as the governing body of the Authority. Therefore, the financial data of the Authority has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2003.

The Authority's primary source of revenue is incremental property taxes, which are computed and allocated to the Authority in the following manner:

- a. The assessed valuation of all property within the Authority project area is determined and "frozen" for allocation purposes on the date of adoption of that project area's Revitalization Plan by a designation of a fiscal year assessment roll.
- b. Increments in property taxes resulting from any increase in assessed values after the adoption of a Revitalization Plan are allocated to the Authority; all property taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Authority has no power to levy or collect taxes. Any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay principal and interest on debt or loans from the City and any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Authority is also authorized to finance the Revitalization Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Authority debt.

**A. *Basis of Presentation***

The Authority's basic component unit financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Authority government. Eliminations have been made to minimize the double counting of internal activities.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

<b>NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
---

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Authority's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

**B. Major Funds**

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. All of the Authority's funds are major funds.

The Authority reports the following major governmental funds in the accompanying financial statements:

**Revitalization Authority (Special Revenue)** – This fund accounts for the activities to prepare and carry out redevelopment plans for the designated development project area.

**Housing Set-Aside (Special Revenue)** – This fund accounts for the required 20% revenue set-aside and related expenses for Housing activities.

**The Police/Fire Building Refunding 1995 Certificates of Participation Fund (Debt Service)** – This fund accounts for the resources used for the purpose of paying the principal, interest, and related costs on the 1995 Refunding Certificates of Participation as they become due.

**C. Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

MOUNTAIN VIEW REVITALIZATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

**NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when *measurable and available*. The Authority considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Those revenues susceptible to accrual include taxes, intergovernmental revenues and interest.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**D. Property Tax**

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the Authority. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Authority in the fiscal year they are assessed, provided they become available as defined above.

**E. Land Held for Redevelopment**

At June 30, 2003 the Authority had two parcels held for redevelopment; one parcel purchased in fiscal year 2000 and one purchased in fiscal year 2003, which are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

<b>NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
---

***F. Use of Estimates***

The accompanying basic financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

<b>NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING</b>
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***A. Budgets and Budgetary Accounting***

The Members of the Authority adopt an annual budget on or before June 30 for the ensuing fiscal year for the Special Revenue Funds. The Debt Service is budgeted annually in the Special Revenue Fund, the fund obligated for such payments.

Budgeted appropriations become effective each July 1. The Members of the Authority may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The Special Revenue Funds' annual budgets are presented on a basis consistent with the governmental financial statements prepared in accordance with generally accepted accounting principles.

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. The Members of the Authority must approve appropriation increases to departmental budgets; however, management may transfer approved budgeted amounts within fund and departmental expenditure classifications. Supplemental appropriations were approved during the course of the year as needed.

***B. Encumbrance Accounting***

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 3 – CASH AND INVESTMENTS**

Investments are carried at fair value and are categorized as follows at June 30, 2003 (dollars in thousands):

	Cash and Investments		
	Available for Operations	Restricted	Total
<i>Pooled Investments (non Categorized):</i>			
Local Agency Investment Fund	\$ 0	767	767
Mutual funds (government securities)	0	1	1
City of Mountain View's Pooled Investment Fund	3,769	0	3,769
Total cash and investments	<u>\$ 3,769</u>	<u>768</u>	<u>4,537</u>

The Authority's cash, except cash with fiscal agents, is included in a City-wide cash and investments pool, the details of which are presented in the City's basic financial statements. The City's investment policy and the California Government Code permit investments in the following: Securities issued by the U.S. Government or an agency of the U.S. Government, mortgage-backed securities, commercial paper, banker's acceptances, medium term notes issued by U.S. corporations, mutual funds invested in U.S. Government securities, certificates of deposit, municipal bonds issued by the City or any of its component units and the State Treasurer's investment pool (Local Agency Investment Fund). As of June 30, 2003 the City's portfolio was composed primarily of investments in securities issued by the U.S. Government and its agencies and the State of California Local Agency Investment Fund.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**NOTE 4 – NOTES RECEIVABLE**

At June 30, 2003 the Authority's notes and loans receivable totaled (dollars in thousands):

Latham Street Apartments	\$ 866
Central Park Apartments	137
Total	<u>\$ 1,003</u>

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

<b>NOTE 4 – NOTES RECEIVABLE (Continued)</b>
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**A. *Latham Street Apartments***

On August 30, 1995 the City and the Authority loaned \$2.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 75 unit apartment complex at 2230 Latham Street to provide affordable housing for very low- to moderate-income families. The loan was funded by \$992,000 of Authority Housing Set-Aside funds, \$688,000 of Community Development Block Grants (CDBG) funds and \$387,000 of Home Investment Partnership Act (HOME) grant funds. The various components of the loan are to be repaid over a 20 to 24 year period at three percent annual simple interest. The loan is collateralized by a first deed of trust.

**B. *Central Park Apartments***

On July 1, 1998 the City and the Authority loaned \$2.2 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 149 unit apartment complex known as Central Park Apartments at 90 Sierra Vista Avenue to be used to provide housing for seniors of very low to low income. The entire project was funded by three loans: \$388,000 from Authority Housing Set-Aside funds to be repaid over 9 years, commencing in fiscal year 1999 and bearing three percent annual interest; \$1.2 million of CDBG funds to be repaid over 36 years commencing in fiscal year 2013 and bearing three percent annual interest; and \$612,000 from HOME grant funds to be repaid over 21 years commencing in fiscal year 2005 and bearing three percent annual interest.

<b>NOTE 5 – CAPITAL ASSETS</b>
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All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets are assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of two years.

Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets.

Buildings	25 to 50 years
Improvements	5 to 50 years
Parking facilities	40 years
Street lights	50 years
Sidewalks, curbs, gutters, and driveways	40 years
Streets and roads	40 years

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 5 – CAPITAL ASSETS (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002 (including retroactive additions)	Additions	Balance at June 30, 2003
<i><b>Governmental activities</b></i>			
Capital assets being depreciated:			
Buildings	\$ 5,394	0	5,394
Improvements other than buildings	10	0	10
Parking facilities	4,140	0	4,140
Street lights	781	0	781
Sidewalks, curbs, gutters, and driveways	3,839	0	3,839
Streets	3,009	0	3,009
	<u>17,173</u>	<u>0</u>	<u>17,173</u>
Total capital assets being depreciated	17,173	0	17,173
Less accumulated depreciation for:			
Buildings	(1,225)	(135)	(1,360)
Improvements other than buildings	(4)	(1)	(5)
Parking facilities	(1,133)	(98)	(1,231)
Street lights	(213)	(19)	(232)
Sidewalks, curbs, gutters, and driveways	(1,051)	(91)	(1,142)
Streets	(824)	(72)	(896)
	<u>(4,450)</u>	<u>(416)</u>	<u>(4,866)</u>
Total accumulated depreciation	(4,450)	(416)	(4,866)
Governmental activity capital assets, net	<u>\$ 12,723</u>	<u>(416)</u>	<u>12,307</u>

Under GASB Statement No. 34 the Authority is allowed four years to record its infrastructure. During fiscal year 2003 the Authority continued to inventory its infrastructure capital assets and determined that its parking facilities, streets, sidewalks, and street lights networks with a net book value of \$8.5 million should be added to the Authority's capital assets.

**NOTE 6 – INTERFUND TRANSACTIONS**

**A. Transfers Between Funds**

With the approval of the Members of the Authority, resources may be transferred from one Authority fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 6 – INTERFUND TRANSACTIONS (Continued)**

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

	Transfers	
	In	Out
Revitalization Authority Special Revenue Fund	\$ 0	1,235
Housing Set-Aside Special Revenue Fund	511	0
Police/Fire Building 1995 C. O.P. Fund	724	0
Total all Funds	<u>\$ 1,235</u>	<u>1,235</u>

During the fiscal year ended June 30, 2003 the Authority made transfers to the City in the amount of \$3.2 million to fund development activities. Transfers from the City to the Authority totaled \$148,000 to return interest earnings on available capital projects balances.

**B. Long-Term Advances from the City**

Improvements to the Authority have been partially funded by advances from the City. The Authority's management believes that future property tax increment revenues will be sufficient to repay the advances. The advance of \$1.7 million from the General Fund will be repaid at a reamortized interest rate of six percent over the sixteen-year remaining life of the Authority. A payment of \$61,000 was made in fiscal year 2003. The remaining General Fund advance of \$413,000 will be paid in full upon the sale of the property located at 253-255 Franklin Street.

The advance of \$1.9 million from Shoreline Regional Park Community is for the purchase of property. The advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

**NOTE 7 – LONG TERM OBLIGATIONS**

The Authority generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The Authority's debt issues and transactions are summarized below and discussed in detail thereafter.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 7 – LONG TERM OBLIGATIONS (Continued)**

**A. Composition and Changes**

The Authority's long term debt as of June 30, 2003 follows (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
Pledge of Tax Increment for the Repayment of the 1995 Refunding Certificates of Participation 4.0% to 6.0%, due 2016	\$ 9,175	7,485	(340)	7,145	355

**B. Description of Long-Term Obligations**

**Pledge of Tax Increment for the Repayment of the 1995 Refunding Bonds Revitalization Certificates of Participation** – In fiscal 1996, the City transferred ownership of the Police/Fire Building to the Authority and then entered into a 20-year lease for such property with the Authority. Simultaneously, the Authority entered into an indebtedness agreement whereby the Authority pledges tax increment revenue in amounts equal to the lease payments. The City has assigned the indebtedness payments to a trustee for the benefit of the owners of the 1995 Certificates of Participation (COPs). The indebtedness payments are scheduled to be sufficient, in both time and amount, to pay the principal and interest on the 1995 COPs when due. To the extent the indebtedness payments are not sufficient to pay the principal and interest on the 1995 COPs, the City is obligated to make lease payments sufficient to satisfy the principal and interest payments on the 1995 COPs when due. When the 1995 COPs are repaid and the lease expires, ownership of the property will revert back to the City.

**C. Tax Increment Pledge Requirements**

The Authority's annual commitment to the City to maturity follows (dollars in thousands):

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 355	398
2005	370	380
2006	390	360
2007	410	340
2008	430	318
2009-2013	2,550	1,182
2014-2018	2,640	329
Total	\$ 7,145	3,307

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 8 – RISK MANAGEMENT**

The Authority is covered under the City's insurance program. The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of \$500,000 for general liability claims, \$500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Authority for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of \$500,000 per incident. ACCEL is a joint powers authority of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of \$19.5 million per occurrence, with an aggregate limit of \$19.5 million.

Additional information regarding the City's insurance programs can be found in the City's June 30, 2003 Comprehensive Annual Financial Report.

**NOTE 9 – NET ASSETS AND FUND BALANCES**

**A. Net Assets**

Net assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net assets are divided into three captions on the Statement of Net Assets. These captions apply only to net assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of net assets which is represented by the current net book value of the Authority's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of net assets which is not restricted as to use.

**MOUNTAIN VIEW REVITALIZATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)**

***B. Fund Balances, Reserves and Designations***

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Authority may be a defendant in several lawsuits and other matters arising in the normal course of operations. The Authority's management and legal counsel are of the opinion that the potential claims against the Authority not covered by insurance resulting from such litigation would not materially affect the financial position of the Authority.

**NOTE 11 – TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE  
AUGMENTATION FUND (ERAF)**

In fiscal year 2003 the State of California directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2003, the Authority paid \$74,000 as a result of the State directive.

**NOTE 12 – SUBSEQUENT EVENT**

In September 2003 the City caused to be issued the 2003 Certificates of Participation (Refunding and Capital Projects) in an aggregate principal amount of \$16.9 million to refund the 1995 Refunding Certificates of Participation and to finance the construction of a new parking facility. Simultaneously, the Authority entered into an Indebtedness Agreement with the City, whereby in exchange for the bond proceeds to finance the construction of the new parking facility in the redevelopment area, the Authority pledged tax increment revenue in amounts equal to the debt service payments on the 2003 COPs.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Mountain View Revitalization Authority  
City of Mountain View, California

We have audited the financial statements of the Mountain View Revitalization Authority (Authority) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 4, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

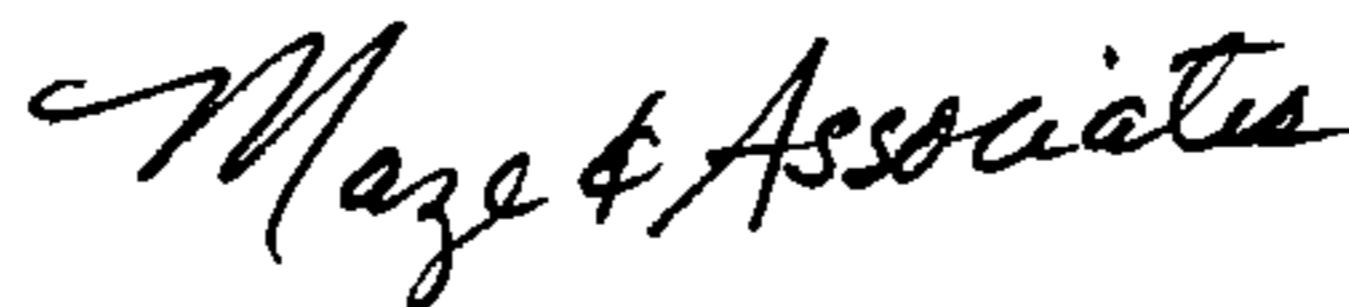
### *Compliance*

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Those provisions include provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Members of the Authority, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



September 4, 2003